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SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

29 May 2024

Aditya Birla Fashion & Retail

Growth led by loss-making businesses; lower discounting and store rationalization drive up core business margins

RESULT UPDATE

Sector: Retail **Rating:** HOLD

CMP: Rs 299 **Target Price:** Rs 301

Stock Info

Sensex/Nifty	74,503/ 22,705
Bloomberg	ABFRL IN
Equity shares (mn)	1,015
52-wk High/Low	Rs 301/ 193
Face value	Rs 10
M-Cap	Rs 304bn/USD 3.7bn
3-m Avg volume	USD 23mn

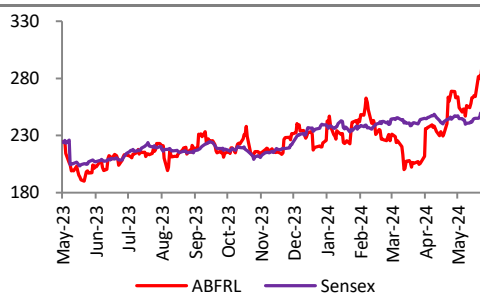
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Sales	139,959	165,095	199,379
PAT	-16,765	-3,758	-1,020
EPS (Rs)	(16.5)	(3.7)	(1.0)
PE (x)	(41.3)	(80.8)	(297.8)
EV/EBITDA (x)	23.5	17.1	13.2
P/BV (x)	6.4	7.0	7.2
EV/Sales	2.4	2.0	1.7
RoE (%)	(18.2)	(8.3)	(2.4)
RoCE (%)	(7.3)	3.2	6.1
NWC (days)	43.0	44.6	50.7
Net gearing (x)	0.8	0.8	0.7

Shareholding Pattern (%)

	Mar'24	Dec'23	Sep'23
Promoter	51.9	55.5	55.5
-Pledged	-	-	-
FII	19.5	14.2	14.0
DII	14.8	17.0	17.0
Others	13.8	13.4	13.5

Stock Performance (1-year)



Aditya Birla Fashion & Retail (ABFRL) earnings missed estimates given higher losses in the fast-growing new businesses. Overall revenue growth of 18.3% seems strong in the currently muted demand environment. The apparel market remained subdued impacted by fewer weddings, weak winters and sluggish online sales. Among new businesses, Ethnic grew 2.7x vs last year, TMRW sales doubled while Reebok saw strong growth of 29%. The core businesses of Lifestyle/ Pantaloons grew 2%/ 10% YoY respectively. LTL growth for Pantaloons stood at 1% while lifestyle was flattish. Innerwear business grew 12% YoY offsetting the weakness in athleisure. Standalone revenue growth stood at 8% YoY. Gross margin remained flat while EBITDA margin expanded 163 bps YoY to 8.3% led decline in employee cost (-35 bps), rent (-22 bps), other expenses (-100 bps). Lifestyle business EBITDA margin expanded 484 bps to 19.5% while Pantaloons operating margin grew 275 bps to 10.4% led by lower discounting and significant store rationalization. Adj. loss stood at c. Rs 2.7 bn due to increase in depreciation (+30.7% YoY) and high interest cost (+65.6% YoY) due to debt taken to fund the TCNS acquisition. Company closed net 29 Pantaloons stores and 60 Madura stores during the quarter.

Balance sheet looks stretched currently post the TCNS acquisition with net debt up to Rs 28bn in FY24. Given the current growth plans, this is expected to improve only post the demerger when the company plans to raise equity capital of Rs 25bn. Long-term growth targets though look achievable with continued retail expansion, a well-diversified brand portfolio and strong investments in new businesses creating new growth engines. Margins should remain stable despite expected gains in Madura and Pantaloons given losses in new businesses offsetting that. Post factoring in higher growth but losses from new businesses, we now build in 19.4%/32.3% revenue/EBITDA CAGR over FY24-26E. Till the time the overall demand environment improves we do not expect significant pick-up in growth trajectory and turnaround at PAT level. Post demerger, we expect Madura Fashion and Lifestyle business which follows an asset light franchise-driven business model to generate strong cash flows to witness a re-rating while the remaining business can see tepid investor interest with limited profitability and higher capital requirement. We reiterate our HOLD rating with an increased TP of Rs 301 (Rs 267 earlier). We ascribe 12x FY26E EV/EBITDA for Lifestyle brands, 8x for Pantaloons and 1.5x EV/sales for other businesses, implying 13x FY26E EV/EBITDA on a consolidated basis. Movement in debt levels and loss trajectory in new businesses would remain the key monitorables for the company hereon.

Lifestyle revenue grew 2% YoY: ABFRL's Lifestyle revenue stood at Rs 15.64 bn (+2% YoY). Reduced thrust on high discount channels was reflected in the muted revenue performance. Moreover, fewer weddings and delayed arrival of winter impacted sales. EBITDA margin expanded 484 bps YoY to 19.5% led by better value realizations and focus on driving growth in high profitability channels. The expansion momentum for the brands was disrupted due to tough market conditions, and the company closing 17 stores. Premiumization continued to be a strategic growth lever driven through product innovations and brand building. Wholesale business declined 12% YoY due to sluggish market conditions. Retail growth remained muted at 2% mainly on account of relatively weaker wedding season this year. Ecommerce business growth is being calibrated to grow only in profitable parts of the channel.

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Investors are advised to refer disclosures made at the end of the research report.

Pantaloon's clocked 10% growth: Pantaloon's reported 4QFY24 revenue of Rs 8.95 bn, a 10% growth YoY. LTL growth of 1%, as it continued to focus on product enhancements and driving higher conversions. Inflation continued to have impact on mid-market segment. Delayed winter resulted in a subdued winter-wear performance. EBITDA margin expanded 275 bps YoY to 10.4% led by sharp markdown reductions and effective cost control measures. Company closed 29 Pantaloon's stores in 4QFY24 following its store rationalization journey. Private label share stood at 61% in the quarter. We expect store expansions, brand extensions and increased focus on omni-channel to drive near-term growth.

Strong growth across ABLBL's Other businesses: This business reported 9% YoY revenue growth at Rs 2.97 bn while margin expanded 1,154 bps YoY to 2%, 27% growth in youth fashion (American Eagle), Van Heusen growth remained flat in Q4 where in innerwear grew 12% YoY while weakness in athleisure led to its decline. Network expansion in innerwear and athleisure continued with company adding 3,000 MBOs and 35,000 trade outlets. Youth Fashion continued its strong growth momentum led by the expansion in distribution network and brand building initiatives. *Reebok* revenue grew 29% YoY driven by product innovations and continued distribution expansion (now available in 160+ EBOs and 900+ MBOs and departmental stores). Company expects distribution expansion through EBOs and MBOs, higher throughputs in existing stores, use of new technology in stores, new product launches, leveraging apparel expertise to drive apparel growth to expand the *Reebok* business which achieved positive EBITDA in FY24.

Strong growth in Ethnic wear: The segment saw 172% YoY revenue growth to Rs 4.74 bn, aided by TCNS consolidation, strong network expansion and brand building initiatives. Revenue in Sabyasachi grew 56%YoY in 4QFY24 led by strong performance in jewellery. Men's premium ethnic wear brand TASVA sales crossed Rs 1 bn mark in FY24; store count stood at 57 stores. S&N posted annual revenue growth of 21% YoY with a store count of 21 stores. Annual revenue of House of Masaba grew 40% vs last year and store count stood at 15. TCNS portfolio grew 79% YoY despite a 15% reduction in stores led by network rationalization. Majority of the investments will be directed towards Tasva under the ethnic category which is expected to drive breakeven of the brand by FY26E/FY27E.

D2C Portfolio: ABFRL has set up a subsidiary under brand 'TMRW' to build a portfolio of D2C brands in categories such as denims, T-shirts, athleisure, kids wear and lounge wear. This portfolio will be built through organic and inorganic routes. The company had signed a definitive agreement to acquire 8 brands of which all have been acquired and integrated. Portfolio revenue grew 2x YoY led by optimization of backend operations, strengthening D2C tech thus improving conversions and establishing distinctive brand positioning.

EBITDA margin of 8.3% vs 6.7% in 4QFY23: Gross margin remained flat while EBITDA margin expanded 163 bps YoY to 8.3% led decline in employee cost (-35 bps), rent (-22 bps), other expenses (-100 bps). EBITDA margin for the *Lifestyle* brands/Pantaloon's were 19.5%/10.4%, respectively. *Lifestyle* margin grew 484bps vs. 4QFY23 while Pantaloon's margin expanded 275bps YoY. Ethnic-wear businesses reported a 3.2% EBITDA margin. ABFRL remains focused on increasing the share of private labels to improve margins. Adjusted PAT loss stood at Rs 2,719 mn vs. PAT loss of Rs 1,945 mn in 4QFY23.

Exhibit 1: Quarterly performance

YE March (Rs mn)	4QFY24	4QFY23	3QFY24	YoY (%)	QoQ (%)
Net Revenues	34,067	28,797	41,667	18.3	(18.2)
RM Costs	4,782	2,216	7,183	116	(33.4)
(% of sales)	14.0	7.7	17.2		
Purchase of traded goods	10,266	10,522	10,944	(2.4)	(6.2)
(% of sales)	30.1	36.5	26.3		
Employee cost	4,780	4,141	4,876	15.5	(2.0)
(% of sales)	14.0	14.4	11.7		
Rent	2,462	2,147	2,877		
(% of sales)	7.23%	7.45%	6.9%		
Others	8,939	7,844	10,255	14.0	(12.8)
(% of sales)	26.2	27.2	24.6		
EBITDA	2,837	1,928	5,533	47.1	(48.7)
EBITDA margin (%)	8.3	6.7	13.3		
Other income	875	364	441	140.4	98.6
PBITD	3,712	2,292	5,973	61.9	(37.9)
Depreciation	4,554	3,485	4,441	30.7	2.6
Interest	2,355	1,422	2,454	65.6	(4.0)
PBT	(3,197)	(2,615)	(922)	22.3	246.9
Tax	(478)	(646)	227		
ETR (%)	14.9	24.7	(24.6)		
Adjusted PAT	(2,719)	(1,969)	(1,149)	38.1	136.8
PATAMI margin	(8.0)	(6.8)	(2.8)		
Extraordinary income/ (exp.)	-	-	-		
P&L of associates	56	24	73		
Reported PAT	(2,664)	(1,945)	(1,076)		
Adj EPS (Rs)	(2.9)	(2.1)	(1.2)		

Source: Company, Systematix Institutional Research

Exhibit 2: Segment-wise quarterly performance

YE March (Rs mn)	4QFY24	4QFY23	YoY (%)
Segment revenue			
Madura Segment			
Lifestyle Brands	15,640	15,350	2%
Other Businesses	2,970	2,730	9%
Total Madura Segment	18,610	18,080	3%
Pantaloons	8,950	8,110	10%
Elimination	(630)	(760)	
Ethnic Subsidiaries	4,740	1,740	172%
TMRW	1,140	540	111%
Others	1,240	1,090	14%
Net Sales	34,050	28,800	18%
EBITDA margin (%)	4QFY24	4QFY23	
Lifestyle Brands	19.5%	14.7%	
Other Businesses	2.0%	-9.5%	
Total Madura	16.7%	11.0%	
Pantaloons	10.4%	7.6%	
Ethnic Subsidiaries	3.2%	1.7%	
TMRW	-44%	-52%	
Others	6%	-	
Consol EBITDA margin	11.1%	8.0%	

Source: Company, Systematix Institutional Research

Exhibit 3: Change in Estimates

(Rs mn)	New Estimates		Old Estimates		Variation (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	163,660	192,412	165,095	199,379	1%	4%
EBITDA	19,235	24,288	19,784	25,427	3%	5%
EBITDA Margin	11.8%	12.6%	12.0%	12.8%		
Adj. PAT	(4,163)	(1,332)	(3,758)	(1,020)	-10%	-23%

Source: Company, Systematix Institutional Research

Conference call takeaways

Demand environment – The demand was impacted in January and February due to lower wedding days and weak winters. Company expects to see better growth in 2HFY25.

Madura LTL growth – LTL growth was flat during FY24. Company reduced discounts by 500 bps during 2HFY24.

Private label contribution for Pantaloons – Private label contribution stood at 63%, expanded 140 bps during FY24.

Pantaloons update– Pantaloons margins for the year were lower due to cleaning up of old inventory. During FY24 company opened 29 Pantaloons stores while closed 43 stores. In FY24, company closed stores which do not fall under the company's established propositions along with the unprofitable ones. Store expansion will now be targeted towards larger cities with specified store size compared to adding smaller stores in small towns in previous years.

Style-Up – Company currently operates 25-28 Style-Up stores across 8-10 cities across the country. Company will increase investments in Style-Up going forward.

Tasva – Company closed down few Tasva stores during the quarter. These stores were majorly in small markets which saw sluggish growth. Company witnessed strong traction for Tasva in big cities and plans to expand it further in such markets. Company expects to double revenue in near term supported by strong store expansion. Company currently operates 57 Tasva stores and plans to add 30 stores in FY25. Tasva stores will be operated by company till it scales up in size and later on given to franchises.

Van Heusen – Innerwear sales saw a growth while athleisure saw a decline. Company expects athleisure to grow moving ahead. The business is yet to breakeven.

Peter England – Creates branded experience at sharp price points. Peter England Red also reaches to Tier 4 towns too. Due to lower discounts the brand saw lower sales growth.

Digital first brands – The brands caters to young consumers who have different habits, tastes, channel choices, and are digitally native. Going ahead these brands are expected to operate on an omnichannel model.

Wholesale channel – Wholesale was impacted due to the difference in primary vs secondary sales. Company will continued to focus on the business as it profitable.

Reebok – Company targets to double Reebok revenue in coming 3-4 years.

TCNS – Acquisition expected to be completed in coming 3 months.

Demerger – Expected to be completed by end of 3QFY25 or in 4QFY25.

Factors leading to margin expansion – 1) lower store expenses due to store closures, 2) lower discounting, 3) continued premiumization, 4) opting for profitable channels, higher focus on profitability than only on revenue growth.

Share of new business - Share of new businesses within ABFRL moved from 16% to 24% during the year.

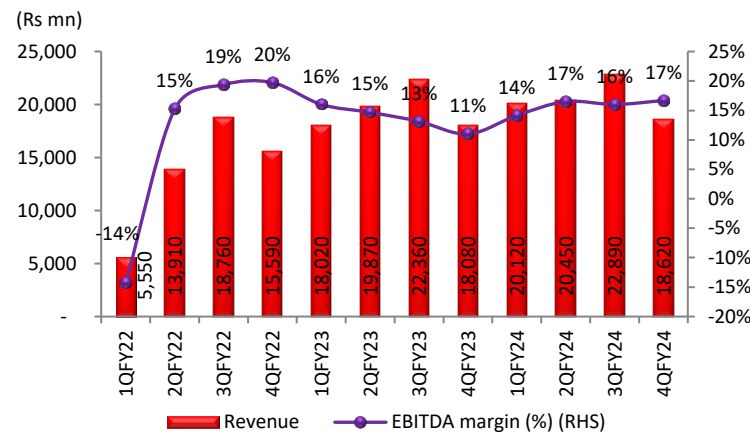
Net Debt – Currently net deb stands at Rs 28.62 bn, post demerger ABLBL to have Rs 9.11 bn of net debt while demerged ABFRL to have Rs19.5 bn of net debt. Company expects to become net positive post raising of capital by end of the year.

Working capital – Net working capital is lower for Madura and Pantaloon's business.

Capex – Capex incurred during FY24 was higher as the company is building a new factory in ABLBL under PLI scheme. The capex is expected to be around Rs 6-6.5 bn in FY25.

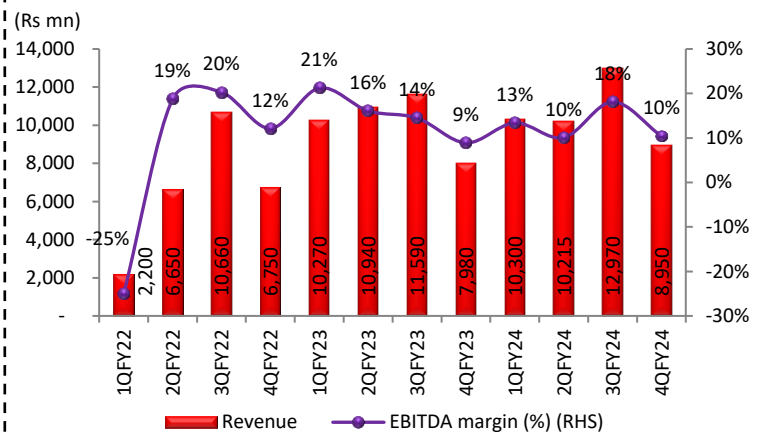
Outlook – Company expects level of discounting to remain lower. Company shall continue to focus on profitability rather than just topline growth. For smaller business, company is likely to focus on growth till they achieve scale and size. In majority of the new businesses company has bottomed out on peak losses. In these businesses, on an annual basis company expects to see profits.

Exhibit 4: Madura sales grew 3% YoY



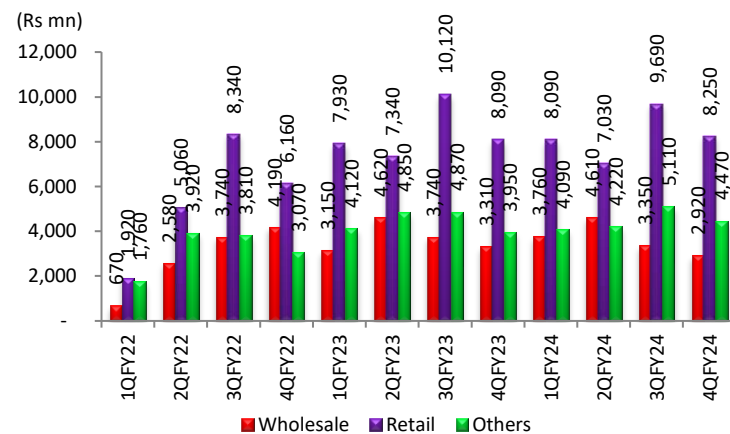
Source: Company, Systematix Institutional Research

Exhibit 5: Pantaloon's sales growth stood at 10%



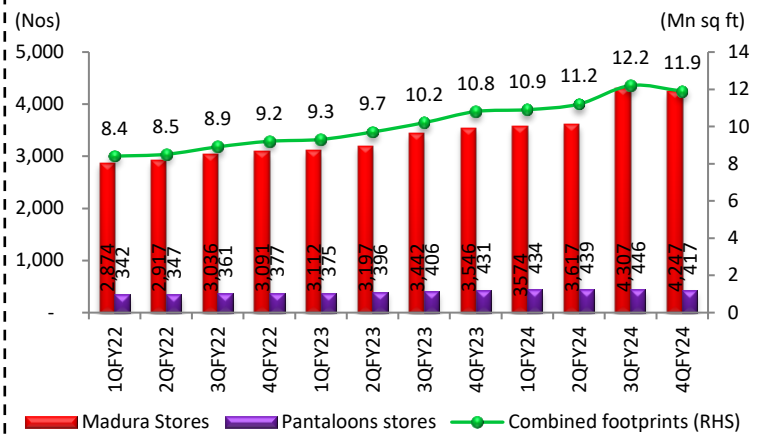
Source: Company, Systematix Institutional Research

Exhibit 6: Year on year decline in wholesale



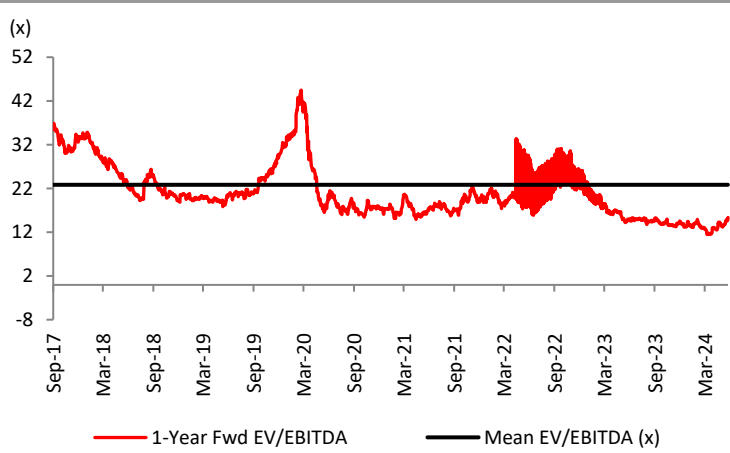
Source: Company, Systematix Institutional Research

Exhibit 7: Retail area stood at 11.9mn sq.ft in 4Q



Source: Company, Systematix Institutional Research

Exhibit 8: The stock trades at 15.3x one-year forward EV/EBITDA



Source: Bloomberg, Systematix Institutional Research

Exhibit 9: Valuation summary

Segment (Rs bn)	EBITDA/ Sales (FY26E)	Valuation Metric	Multiple (x)	Value	Per share (Rs)
Lifestyle Brands	18	EV/EBITDA	12	215	212
Pantaloon	8	EV/EBITDA	8	65	64
Ethnic wear/ TCNS (Sales)	27	EV/Sales	1.5	40	39
Innerwear/Others (Sales)	25	EV/Sales	1	25	25
Target EV of company				346	341
Net debt				37	39
Target Price				308	301
Current market price (Rs)					299
Potential upside (%)					0.8%

Source: Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	81,362	1,24,179	1,39,959	1,65,095	1,99,379
RM costs/inventories	37,202	55,520	62,672	73,763	88,881
Gross Profits	44,161	68,659	77,286	91,332	1,10,497
Employee costs	11,585	15,634	18,263	20,637	24,324
Rental costs	3,932	8,970	9,705	10,236	12,760
Other costs	17,644	29,120	34,793	40,676	47,986
Total Expenses	70,363	1,09,243	1,25,433	1,45,311	1,73,952
EBITDA	10,999	14,936	14,526	19,784	25,427
Depreciation	9,970	12,270	25,831	17,711	19,024
Other income	1,006	1,165	2,376	2,613	2,875
EBIT	2,034	3,831	(8,929)	4,686	9,278
Interest cost	3,507	4,724	8,766	9,710	10,642
PBT	(1,473)	(893)	(17,695)	(5,024)	(1,364)
Taxes	(266)	(230)	(930)	(1,266)	(344)
Adj. PAT	(1,207)	(663)	(16,765)	(3,758)	(1,020)
Extraordinaries/Deferred tax	-	-	-	-	-
Reported PAT	(1,207)	(663)	(16,765)	(3,758)	(1,020)
No. of shares (mn)	938	949	1,015	1,015	1,015
Adj. EPS	(1.3)	(0.7)	(16.5)	(3.7)	(1.0)

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	9,383	9,488	10,150	10,150	10,150
Reserves and surplus	18,502	23,972	37,060	33,302	32,282
Total Equity	27,885	33,460	47,210	43,452	42,432
Total Debt	12,323	23,055	42,052	39,752	37,252
Lease liabilities	28,681	42,673	52,462	62,462	72,462
Other long term liabilities	9,756	17,539	24,154	24,154	24,154
Total sources	78,646	1,16,728	1,65,878	1,69,820	1,76,300
Net Block/ ROU asset	32,567	47,783	58,153	54,493	54,717
Net deferred tax	3,805	4,085	6,572	6,572	6,572
Other assets	5,317	9,613	10,277	10,277	10,277
Intangibles	29,032	37,232	62,187	62,187	62,187
Investments	-	-	-	-	-
Cash	1,205	7,011	4,624	5,577	6,421
Inventories	29,296	42,144	45,053	53,271	65,017
Debtors	7,564	8,864	12,788	16,102	21,850
Other Current assets	15,280	13,682	24,457	27,405	25,308
Current Assets	52,140	64,690	82,298	96,779	1,12,175
Creditors	34,106	38,461	41,357	49,189	59,173
Other Current Liabilities	11,314	15,224	16,876	16,876	16,876
Current Liabilities	45,420	53,685	58,232	66,064	76,049
Net Working Capital	6,720	11,005	24,066	30,714	36,126
Total Uses	78,646	1,16,728	1,65,878	1,69,820	1,76,300

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	(1,449)	(824)	(8,289)	(5,024)	(1,364)
Add: Depreciation	9,970	12,270	25,831	17,711	19,024
Add: Interest	3,507	4,724	8,766	9,710	10,642
Less: taxes paid	(164)	25	(431)	1,266	344
Add: other adjustments	(2,600)	(714)	(10,791)	-	-
Less: WC changes	(241)	9,118	1,673	3,700	7,509
Total OCF	9,505	6,362	13,414	19,963	21,136
Operating CF w/o WC changes	9,264	15,480	15,087	23,663	28,646
Capital expenditure	(3,480)	(6,813)	(7,470)	(7,000)	(7,150)
Leased asset	-	-	-	-	-
Change in investments	(2,127)	2,839	(22,709)	-	-
Interest/Dividend received	92	102	263	-	-
Total ICF	(5,515)	(3,872)	(29,916)	(7,000)	(7,150)
Free Cash Flows	6,026	(451)	5,944	12,963	13,986
Share issuances	2,476	38	73	-	0
Payment of lease liability	(5,609)	(8,910)	(9,955)	-	-
Change in borrowings	960	17,454	32,160	(2,300)	(2,500)
Dividends	-	-	-	-	-
Interest payment	(3,097)	(5,327)	(8,162)	(9,710)	(10,642)
Others	-	-	-	-	-
Total FCF	(5,270)	3,255	14,116	(12,010)	(13,142)
Net change in cash	(1,279)	5,745	(2,387)	953	844
Opening cash & CE	2,461	1,182	6,927	4,540	5,493
Closing cash & CE	1,182	6,927	4,540	5,493	6,337

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
Yoy growth in Revenue	55.0	52.6	12.7	18.0	20.8
Yoy growth in EBITDA	98.3	35.8	(2.7)	36.2	28.5
Yoy growth in Net income	(81.1)	(49.8)	1,137.4	(48.9)	(72.8)
Effective tax rate	18.3	27.9	11.2	25.2	25.2
EBITDA margin	13.5	12.0	10.4	12.0	12.8
PAT margin	(1.5)	(0.5)	(5.3)	(2.3)	(0.5)
ROACE	3.0	4.4	(7.3)	3.2	6.1
ROAE	(4.3)	(1.9)	(18.2)	(8.3)	(2.4)
Net debt to equity (x)	0.4	0.5	0.8	0.8	0.7
Inventory days	287	277	262	264	267
Debtor days	34	26	33	36	40
Payable days	335	253	241	243	243
NWC days	12	37	43	45	51
Per share numbers (Rs)					
Reported earnings	(1.3)	(0.7)	(16.5)	(3.7)	(1.0)
Dividend	-	-	-	-	-
Free cash	0.4	(9.9)	(4.0)	12.8	13.8
Book Value	29.7	35.3	46.5	42.8	41.8
Valuations (x)					
Price to diluted earnings	(237.3)	(477.6)	(41.3)	(80.8)	(297.8)
EV / EBITDA	26.5	20.1	23.5	17.1	13.2
Price to sales	3.5	2.3	2.2	1.8	1.5

Source: Company, Systematix Institutional Research

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